November 2017

Focusing on the Financial Health and Resilience of Canadians

Part 2 – Key Findings from the 2017 Financial Health Index Study

Financial Health index

About us

Seymour Management Consulting Inc. is a Canadian strategic management consultancy with an established financial wellness strategy consulting practice.

As a values-driven enterprise, we strive to help the financial services sector, government and other partners to support the financial health and resilience of Canadians.

We believe impactful strategy begins with solid data and insights. That's why we've invested in developing the 2017 Canadian Financial Health Index study. The Financial Health Index study is Canada's most comprehensive investigation into consumer financial health and wellness, and the role financial institutions can play to improve the financial well-being and resilience of Canadians.

Our goal is to help leading Canadian organizations, and specifically financial services organizations, better understand and measurably improve the financial health of their customers, at scale.

For more information about us, our mission, vision and services, please visit our website at **www.finhealthindex.ca**.

Authors

Eloise Duncan
Co-Founder, Financial Health Index and Principal, Seymour Management Consulting, Inc.

John C. Lo
Co-Founder and Research Director, Financial Health Index

Acknowledgement

Center for Financial Services Innovation [CFSI] is a non-profit organization with a mission to advance consumer financial health in America by shaping a more robust and innovative financial services marketplace with higher quality and more accessible products and services. We are deeply grateful for the engagement and contribution of CFSI for their on-going collaboration, advice and for permitting us to incorporate their eight financial health indicators into our research to help support financial health measurement across North America.

Introduction

We are excited to continue our three-part whitepaper series titled **Focusing on the Financial Health and Resilience of Canadians**. Part 1, which speaks to the importance and modern relevance of focusing on the financial well-being of Canadians at macro, personal and inter-personal levels, is available for download on the www.finhealthindex.ca website. Part 2 of the whitepaper series, *Key Findings from the 2017 Financial Health Index Study*, presented herein, provides a deeper dive into the data, findings and insights from our research.

The **Focusing on the Financial Health and Resilience of Canadians** white papers help promote the importance of focusing on consumer financial stress/wellness, health and resilience for individuals, families and our wider communities. Our work builds on the existing body of research in Canada that is focused on financial literacy, products and services provision and financial inclusion.

The goal of Part 2 is to continue the dialogue around the highlights shared in Part 1 and paint an overarching picture of the current financial health landscape of Canadians. We highlight regional differences in financial stress and resilience, as well as identify several potentially underserved and vulnerable segments of the population, including Canadians who are: female, Millennials, renters, low income earners, unemployed or under-employed and self-employed/business owners.

Our white paper Part 3 makes a case for the important role of financial service providers (across our financial ecosystem) in improving consumer financial health, while recognizing that individual consumers are ultimately in charge of their financial wellness journey. Organizations can lever the data and insights from the Financial Health Index study, complemented by their own customer or transactional data, to understand, measure, and support the financial health of their customers.

Table of Contents

Definitions

Financial Health:
is about your ability to balance your financial needs for today with those of tomorrow, and get through times of financial hardship.

Financial Resilience:
speaks to your ability to weather unforeseen life events, financial stressors or ‘shocks’.

Financial Wellness:
speaks to your emotional peace of mind in terms of your financial situation (with the opposite being financial stress).

Methodology

The 2017 Canadian Financial Health Index study is an online survey of over 5,200 respondents across each of Canada's provinces, excluding Quebec and Canada's three Territories (Yukon, Northwest Territories, Nunavut). The survey was conducted between March 14 and April 30 of 2017.

Respondents ranged between 18 and 70 years old, and were all primary or joint financial decision-makers. Approximately 51% of respondents were male, while 49% were female.

The study employed a stratified sampling procedure of Canada's 31 largest census metropolitan areas to reduce disproportionate samples, particularly in the case of Ontario. Additionally, quota samples of rural populations from within each province rounded out the sampling plan. Respondents were recruited through the Angus Reid Forum market research community offered by Maru Group Canada Inc. In general, the composition of panelists on the Angus Reid Forum mirrors that of the national census well.

To help mitigate the self-selection bias inherent in online surveys, sample weighting procedures were applied to make statistics computed from the survey data more representative of the Canadian population. An iterative proportional fitting procedure was used to simultaneously adjust for multiple geo-demographic characteristics in the population, including gender, age, household income and province.

Given the sampling plan and weighting procedures described, and based on 2011 Census figures, the results from this study are estimated to be representative of approximately 19.6MM Canadians aged 18-70 years from all provinces, excluding Quebec.

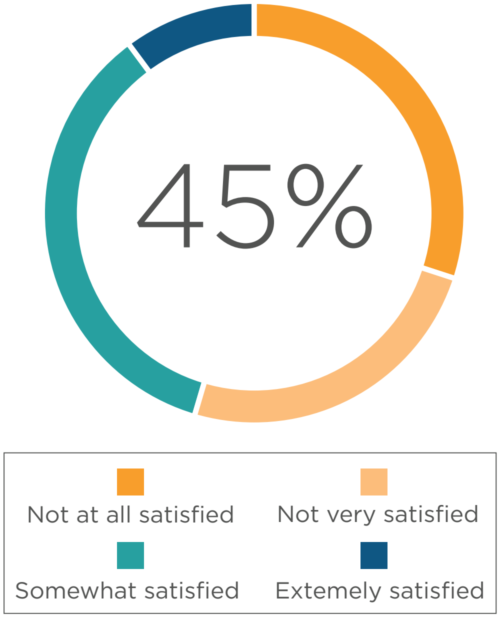
Our survey design was informed by an extensive review of multiple financial capability, financial health, financial resiliency and other money-related studies from the US, Canada, Australia, South Africa and other countries[1]. In addition, we consulted and partnered with CFSI and with their permission, integrated CFSI's eight financial health indicators[2] into our Canadian study.

1. Research reports and studies include: *Canadian Financial Capability Survey,* 2014; *Report on the Economic Well-Being of US Households in 2015* (May 2016); *Gallup-Healthways Financial Well-Being Rankings; Momentum South Africa Household Financial Wellness Index* (2015); *CFSI 'Understanding and Improving Financial Health in America'* and all subsequent studies and publications (2014-2017) and National Australia Bank and Center for Social Innovation (CSI) *'Financial Resilience in Australia 2015'* (2016)
2. CFSI *Eight Ways to Measure Financial Health* (2016). http://cfsinnovation.org/research/eight-ways-to-measure-financial-health/

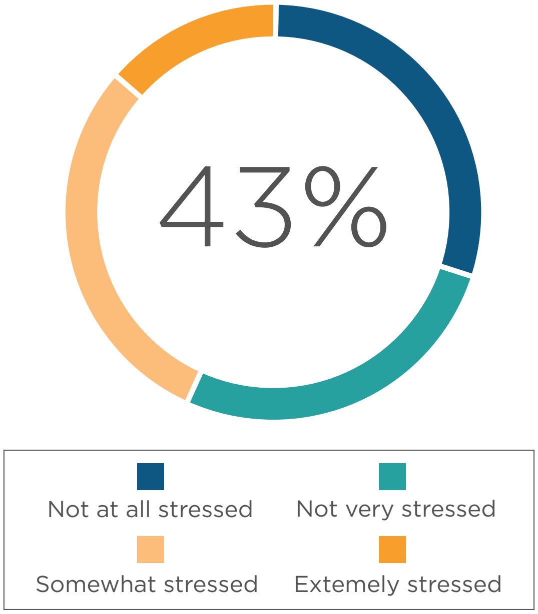
The Financial Stress of Canadians: a Mainstream Issue

In the 2017 Canadian Financial Health Index study, Canadians were asked to assess their own levels of financial satisfaction and financial stress. While 45% of Canadians regard themselves as "extremely" satisfied or "somewhat" satisfied with their current financial situation, 55% of Canadians are "not very" or "not at all" satisfied with their financial situation. At the same time, 13% of Canadians see themselves as "extremely" stressed financially, and 30% of Canadians describe themselves as "somewhat" stressed around their ongoing and future financial obligations. When the results were cross-tabulated, 33% of Canadians are both unsatisfied with their current financial situation and concurrently stressed around their financial obligations.

Less than half of Canadians (45%) say they are "somewhat" or "extremely" satisfied with their current financial situation.



Four in ten Canadians (43%) say that they are "somewhat" or "extremely" stressed about their ongoing and future financial obligations.

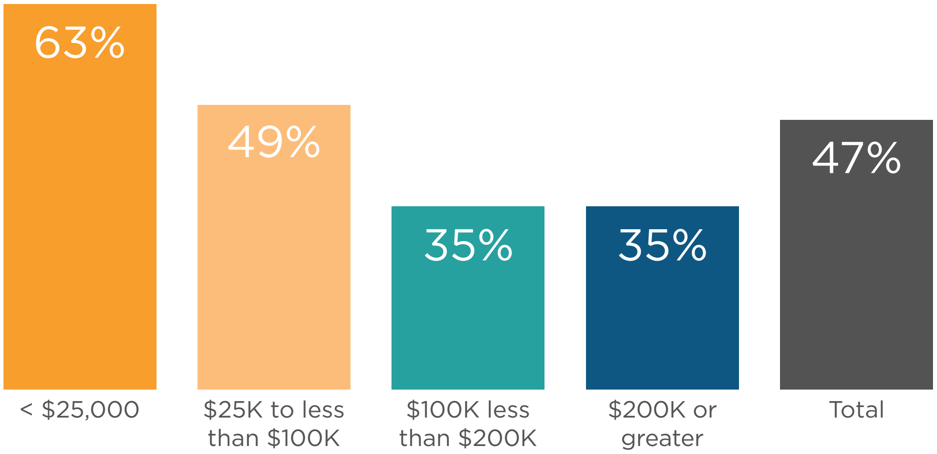


From a regional perspective, Canadians from the Maritime provinces in general - and from New Brunswick and Newfoundland and Labrador in particular - reported lower levels of financial satisfaction and higher levels of financial stress. It is likely not a coincidence that provinces with lower financial wellness self-ratings are also the ones that have undergone significant economic challenges in recent years. According to The Conference Board of Canada[3], Saskatchewan and Alberta continued to experience economic recession in 2016 owing to lower oil and other commodity prices, while New Brunswick and Nova Scotia were two other lagging overall economic performers in Canada.

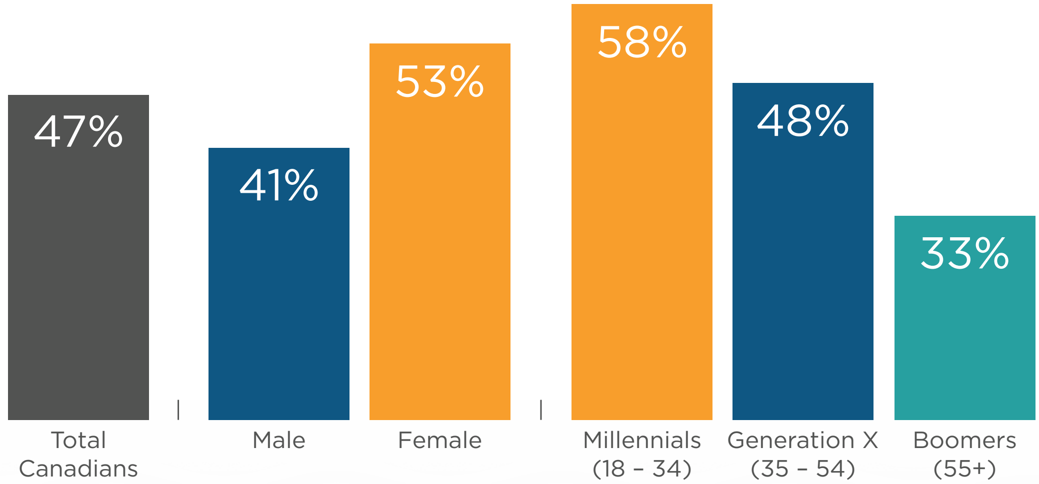
3. The Conference Board of Canada, http://www.conferenceboard.ca/hcp/provincial/economy/gdp-growth.aspx (2017)

Our research shows that money stress is a mainstream issue, with nearly half of Canadians agreeing that money worries cause them extremely high levels of emotional stress, and four in ten admitting to losing sleep at night over money worries. Even among Canadians with the highest household incomes ($100K per annum or more), more than one in three (35%) agree that money worries cause them emotional stress. This proportion is highest, not surprisingly, among lower-income Canadians with annual household incomes of less than $25,000 per annum. Other more challenged segments of the population include women and Millennials aged 18 to 34 years old.

Percentage of Canadians who agree that "Money worries cause me extreme emotional stress" by Total Household Income



Percentage of key Canadian segments who agree that "Money worries cause me extreme emotional stress"

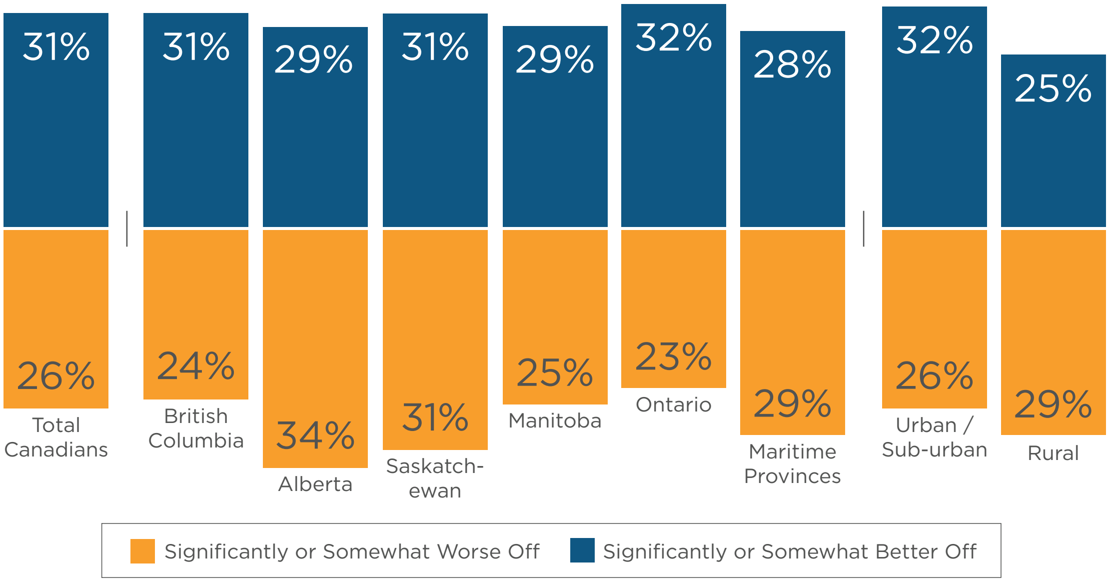


Canadians Struggle to Make Ends Meet

Respondents were asked to compare their current financial state to that of 12 months ago. Overall, approximately one-quarter (26%) say that they are "somewhat" or "significantly" worse off financially, while 31% say that they are better off and 44% say that they are in a similar state.

Alberta has the highest proportion of respondents who say they are worse off financially than a year ago (35% of respondents), followed by people in Saskatchewan, and the Maritime provinces. 29% of Canadians living in rural areas also feel worse off financially, slightly more than Canadians living in urban or sub-urban areas of the country.

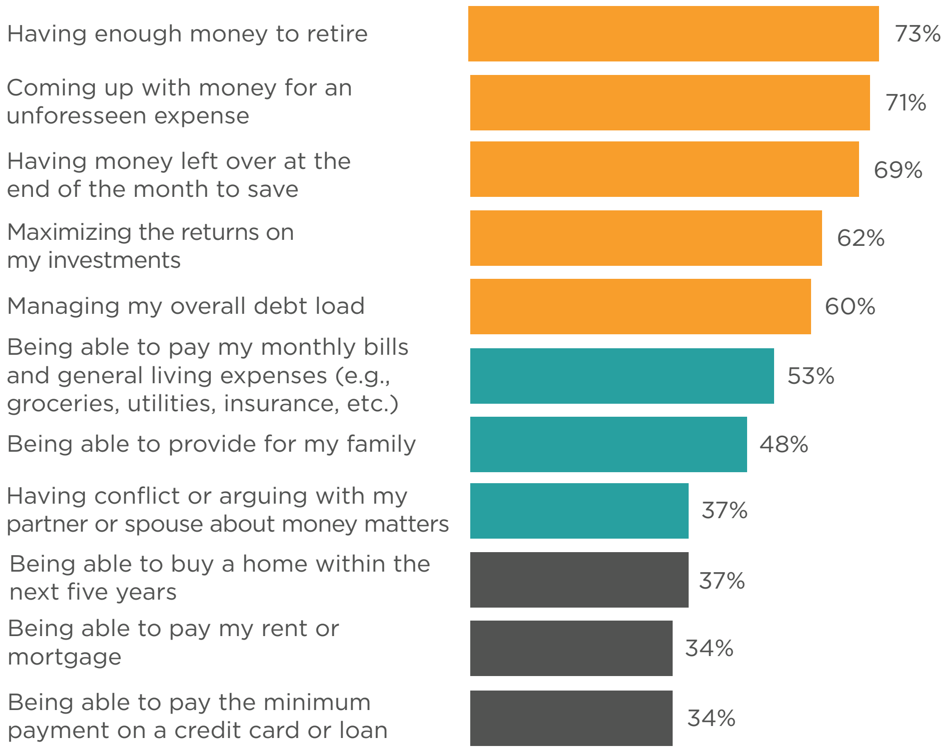
Compared to 12 months ago, would you say you are in better or worse shape financially?



The top financial stressors for Canadians revolve around saving

Over the past 12 months, Canadians have experienced a number of financial stressors. The top four stressors all relate to challenges in saving. In particular, saving for retirement and "having enough money to retire on" is a concern for nearly three out of four Canadians who worry about this often or occasionally. "Coming up with money for an unforeseen expense" and "Having enough money left over at the end of the month to save" are the two other most frequent concerns for seven out of ten Canadians.

Percentage of Canadians who have "occassionally" or "often" worried about each of the following over the past 12 months



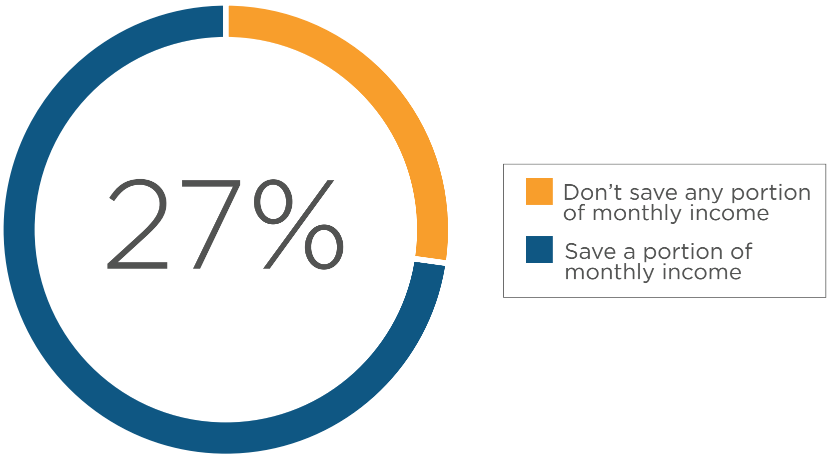
One in six Canadians worry occasionally or often about managing their overall debt load, and one in two Canadians worry about being able to pay their monthly bills and expenses (53%) or being able to provide for their family (48%). Thirty-seven percent of Canadians worry about being able to buy a home within the next five years, and 34% worry about being able to pay their rent or mortgage. Being able to pay off the minimum balance on credit cards or loans is a common worry for 34% of Canadians. And 37% of Canadians have conflicts or arguments around money matters with their partner or spouse, causing financial and emotional stress.

In Manitoba, Saskatchewan and the Maritime provinces, having enough money left over at the end of the month to save is a dominant financial stressor. In other provinces, this is also a big worry for Canadians, along with having enough money to retire on.

Many Canadians are struggling to make ends meet

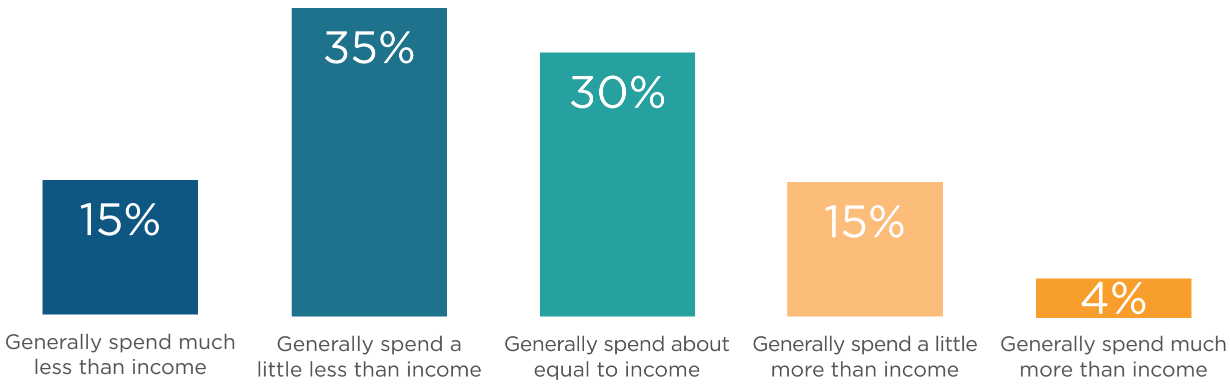
Findings from the Canadian Financial Health Index study highlight that many Canadians are struggling to make ends meet. For example, respondents were asked to estimate the proportion of their household's monthly take-home income (e.g., from wages, pensions, benefits, etc.) that goes towards their housing, bills, debt, savings, discretionary spending and other categories. More than one-quarter (27%) of Canadians report that they typically are not able to save any portion of their monthly income at all, due to the high cost of living.

27% of Canadians are not able to save any portion of their monthly income



Furthermore, when asked to describe their household's income and expenses over the past year, half of Canadians (49%) say that they spend about the equal to or more than their income. This finding mirrors research from a recently released study by the Canadian Payment Association (CPA)[4], which found that 47% of employed Canadians are living paycheque to paycheque, including 23% of Canadians with annual salaries over $200,000 per annum.

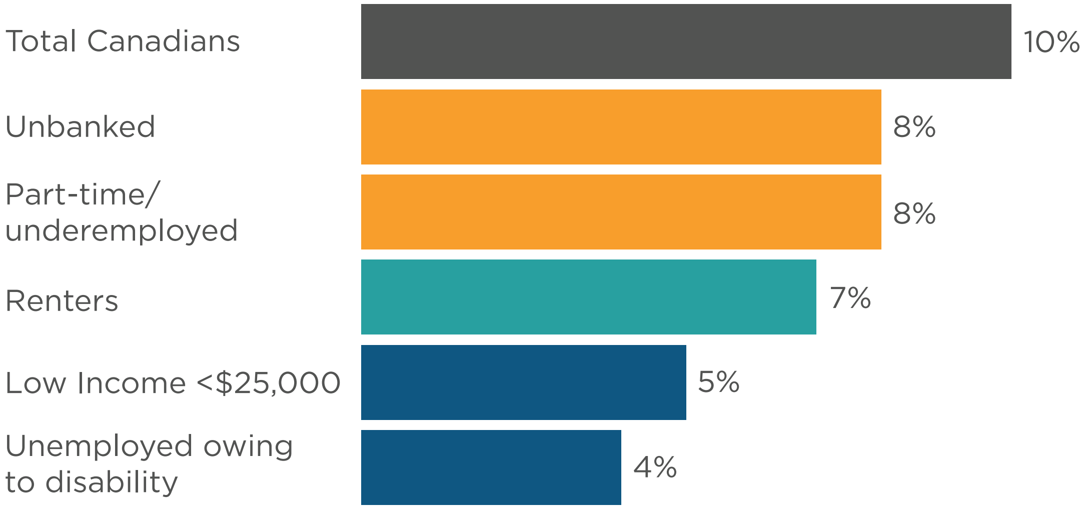
Half of Canadians say that they spend about the equal to or even more than their income



4. Canadian Payroll Association 2017 Study on *Financial Wellness and Workplace Education* (2017).

On a national basis, across all segments, Canadians on average are able to save around 10% of their monthly household take-home income. Low income earners (i.e., with an annual household income of less than $25,000), and those who are unemployed owing to disability are not surprisingly struggling the most to save, and have the least amount left over for discretionary spending. Low income earners are only able to save half the amount of the rest of the population (5% vs. 10%) in a typical month.

Estimated proportion of monthly household take-home income that is saved by key segments



It is increasingly difficult to save owing to rising costs of living

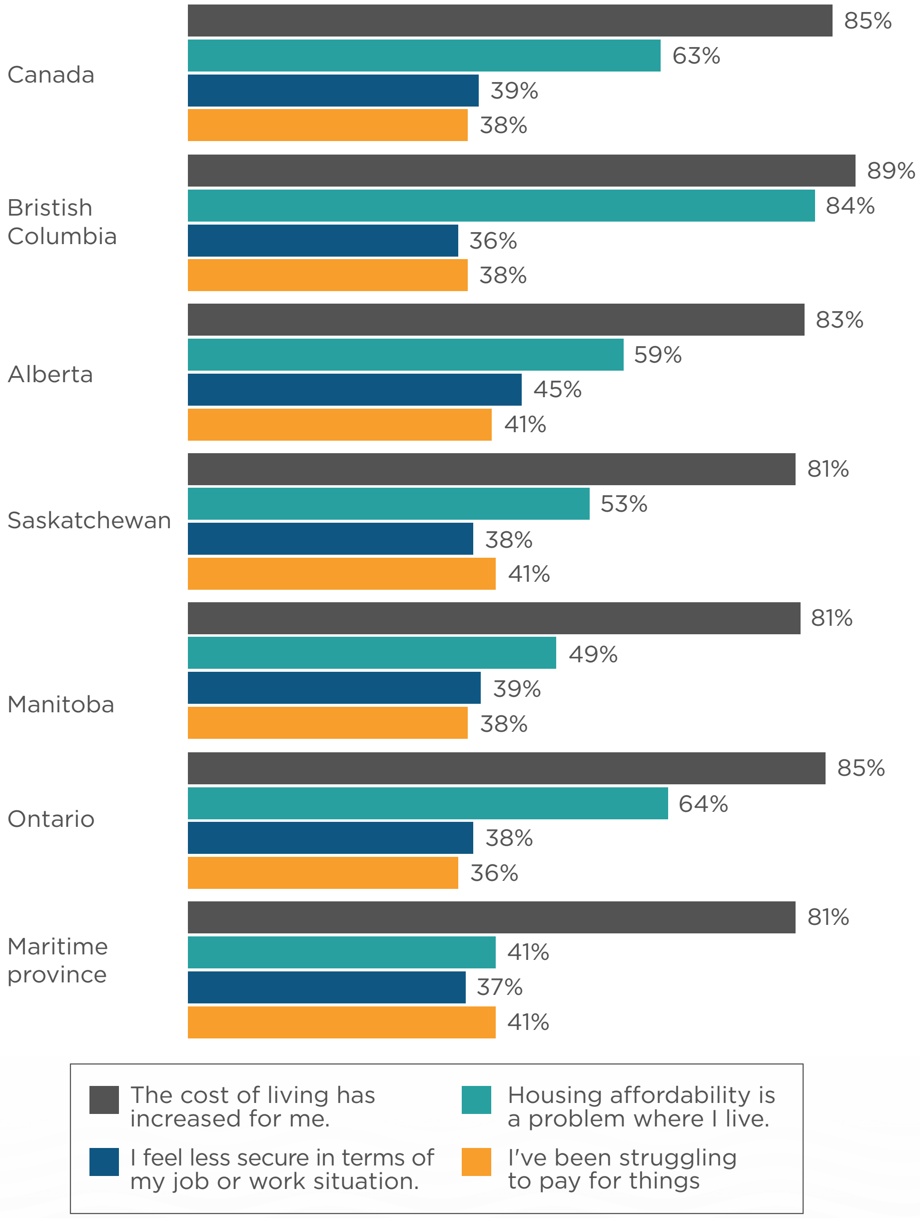
Rising housing costs and rents, both for homeowners and renters, combined with the increased cost of goods and services are making it much more challenging for Canadians to save. Indeed, across the country, 85% of Canadians agree that their "cost of living has increased" over the past year. 38% of Canadians also admit that they've been struggling to pay for things. However, this is a more acute problem for Canadians living in the Maritime provinces, including New Brunswick and Newfoundland and Labrador, where half the population "completely agree" that their "cost of living has increased" over the past twelve months.

Equally concerning, two-thirds (63%) of Canadians agree that "housing affordability is a problem" where they live. In particular, in British Columbia, 84% of residents from the survey "agree" that housing affordability is a problem – significantly higher than the national average. This validates statistics from RBC Economics' most recent Housing Affordability Report, which highlights that housing affordability strains intensified in Canada in the second quarter of this year, with RBC's housing affordability measure eroding for an eighth consecutive quarter to its worse level since the end of 1990. This report highlights that rising interest rates are poised to weigh on home ownership costs across Canada in the future, with affordability in high-priced markets (such as Vancouver and

Toronto) being the most sensitive to interest rate hikes[5].

While Canadians in Ontario and British Columbia are struggling with housing affordability, those in the Maritime provinces are struggling to make ends meet because of increasing costs of living. For Albertans, there is a particular concern over job security as compared to the rest of the country.

Percentage of Canadians who agree with each of the following statements



5. Housing Trends and Affordability Report, RBC Economics, September 2017

Focusing on Underserved Segments of the Population

Examining the current state of the financial stress of Canadians helps to shine a light on the challenges of key segments of our population, including more vulnerable groups. We know that certain segments of our population are more vulnerable and less financially secure than others. For example, some Canadians have little to no financial cushion in case of an unexpected need or emergency. Others may be over-leveraged from a debt perspective, and/or have a higher likelihood to take out high-interest credit or payday loans. The Financial Health Index study confirms that more vulnerable groups within our population include but are not limited to:

- Low income individuals (with household incomes under $25K);
- Underbanked individuals (who use non-traditional financial services e.g., cheque cashing/ payday loans);
- Unbanked Canadians (with no bank account or financial products or services); and
- People who are underemployed in general and/or unemployed owing to a disability.

There are undoubtedly a number of excellent financial literacy programs and services to help people build their financial knowledge and capability: through education, counselling and advice - in particular for more vulnerable groups within our population, including low income individuals, Indigenous individuals and those needing credit counselling. These are currently provided by a variety of organizations, including credit counselling organizations, financial coaches or counsellors, independent financial advisors and traditional and alternative financial services organizations.

Building on this great work that spans decades, we see a natural evolution from a more traditional lens of financial literacy towards a more consumer and segment-centric focus on financial health, wellness and resilience. This needs to incorporate improvements through consumer behavioural change that gives people confidence, alleviates their stress, and ultimately helps their lives. The Financial Health Index study highlights that financial stress is a mainstream issue, and financial knowledge doesn’t necessarily translate to behavior change. Like mental or physical health that can change over time, and have ups and downs, consumers’ financial health can change over time, and have different aspects and enablers to it.

There are also many segments of our population who are more mainstream and may need more support. These segments are not necessarily mutually exclusive, and include: women, small business owners, Millennials and renters.

Women are more stressed and less confident when it comes to managing their finances

The Financial Health Index study highlights that financial stress is higher for women: half of Canadian women report that they are “somewhat” or ”extremely” stressed over ongoing and future financial obligations compared to less than four in ten men (50% vs. 37%). Unfortunately, women are also more likely to say that “money worries cause me extreme emotional stress” than their male counterparts. Women are less satisfied with their current financial situation compared to men (42% vs. 49%). They are also somewhat more likely to report that they are in worse shape financially compared to a year ago.

The biggest differences in sources of stress for women compared to men include: “being able to pay monthly bills and general living expenses,” “coming up with money for unforeseen expense” and “having enough money to retire.”

Women are also less confident in their ability to get through financial hardship and unplanned events than men (41% vs. 50%). In addition, while approximately the same proportion of women as men feel that they “have the skills and knowledge to manage household finances well” (85% vs. 88%), fewer women feel “confident in decisions when it comes to managing money” (79% vs. 85%).

Lower financial confidence and/or lower financial literacy levels for women in 2017 echo statistics from the 2014 Canadian Financial Capability Study, where women had lower financial literacy scores than men; were less likely to consider themselves to be “financially knowledgeable” (31% vs. 43%) and said they were less likely to “know enough about investments to choose the right ones that are suitable for their circumstances” (48% vs. 63% for men)[6].

Filene Research Institute research also highlights that a sizeable number of women may end up lacking retirement security later in life, as 60% have not taken steps to figure out how much to save for their retirement. This study indicated that women - especially younger women and the unemployed - can show higher rates of ‘financial fragility’ (or the opposite of financial resilience), as evidenced through their inability to cover expenses in the event of sickness, job loss, an economic downturn or other emergencies[7].

6. 2014 Canadian Financial Capability Study (CFCS), with results on shared by Stats Canada, March 23, 2016

7. Women’s Financial Capability: Filene Research Institute, May 2015

Small business owners experience higher levels of financial stress

Overall, 8% of Canadians in the study report owning or co-owning a small or medium-sized business, either as a self-employed business owner with no employees, or as a business owner with full or part-time employees. As outlined in our first white paper, Canadian business owners are somewhat less likely to be satisfied with their financial situation – 35% say that they are not at all satisfied vs. 30% for non-business owners.

Business owners also deal with higher levels of financial stress with one in five reporting extreme levels of stress. Specifically, business owners are more likely to be extremely stressed about their ongoing and future financial obligations, and more likely to feel less secure about their job or work situation (49% vs. 38%). They are also significantly more stressed about their ability to provide for their family; pay their monthly bills and living expenses; and have enough money to retire on. Business owners are more likely to "completely" agree that "Money worries make me lose sleep at night," "Money worries cause me extreme emotional stress," and "Money worries make me physically unwell."

On the positive side, business owners are more confident that they are able to deal with financial difficulties. They are more likely to agree "I am confident in my decisions when it comes to managing money, and "I have the skills and knowledge to manage my household's finances well."

Business owners are also more likely to agree that they "have had difficulties accessing financial services over the past 12 months," indicating a possible lack of access to business financial options, credit and/or support and also indicating that they may be a group underserved by financial institutions.

Recognition of the increased complexity of financial wellness for business owners, and the often-close linkages to their personal financial wellness and that of their families, is also important. Further research in this area is important, given the vital importance of small business as the engine our Canadian economy, and known issues related to limited access to financial and social capital, limited time for financial management and other issues experienced by many small business owners.[8]

8. Federal Reserve Bank of Chicago and Federal Reserve Bank of Chicago Study: *Small Business Financial Health Analysis and CFSI Financial Health: A New Vision for serving America's Small Businesses* (July 2017)

Millennials have it particularly hard

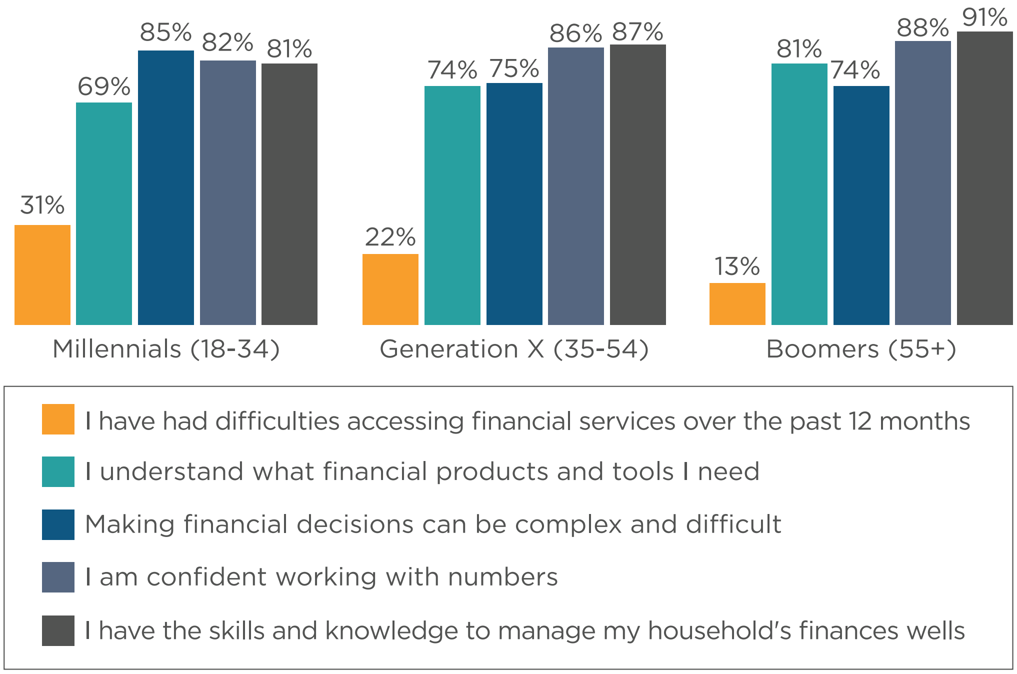
The financial challenges of Millennials is quite well-documented in Canada. Our research validates that this generation has particular challenges, with 54% of Millennials stating that they are stressed over their ongoing and future financial obligations, compared to 44% of Gen Xers and only 29% of Baby Boomers. Only four in ten Millennials are satisfied with their current financial situation, while 37% also report that they are in worse shape financially compared to 12 months ago. More than other generational groups, Millennials say that “money worries cause extreme emotional stress,” with nearly six in ten agreeing with the statement.

Nearly half of Millennials (49%) agree that they “feel less secure in terms of job or work situation”, suggesting that possible income volatility contributes to their financial stress. Furthermore, Millennials stress most often about “having enough money to retire.”

Unfortunately, Millennials may also be least confident in their ability to get through financial hardship and unplanned events. When compared to Gen Xers and Boomer Canadians, Millennials are more likely to agree that “making financial decisions can be complex and difficult” (85%), but also less likely to agree that they “have the skills and knowledge to manage their household’s finances well” or that they are “confident working with numbers.”

Overall, seven in ten Millennials agree that they “understand what financial products and tools they need.” Meanwhile, three in ten Millennials report having had difficulties accessing financial services over the past 12 months. Together, these findings point to significant and particular challenges for this cohort of Canadians, and the need for better support from financial service providers and/or other groups within our financial ecosystem.

Percentage of Canadians who agree with each of the following statements



Challenges and increased financial stress for renters

With it being increasingly difficult to save owing to rising costs of living, Canadians who are renters are facing particularly acute challenges. Indeed, renters, when compared to homeowners, are less than half as likely to say they are satisfied with their current financial situation (27% vs. 56%) and nearly 60% more likely to report higher levels of stress over their ongoing and future financial obligations (57% vs. 36%).

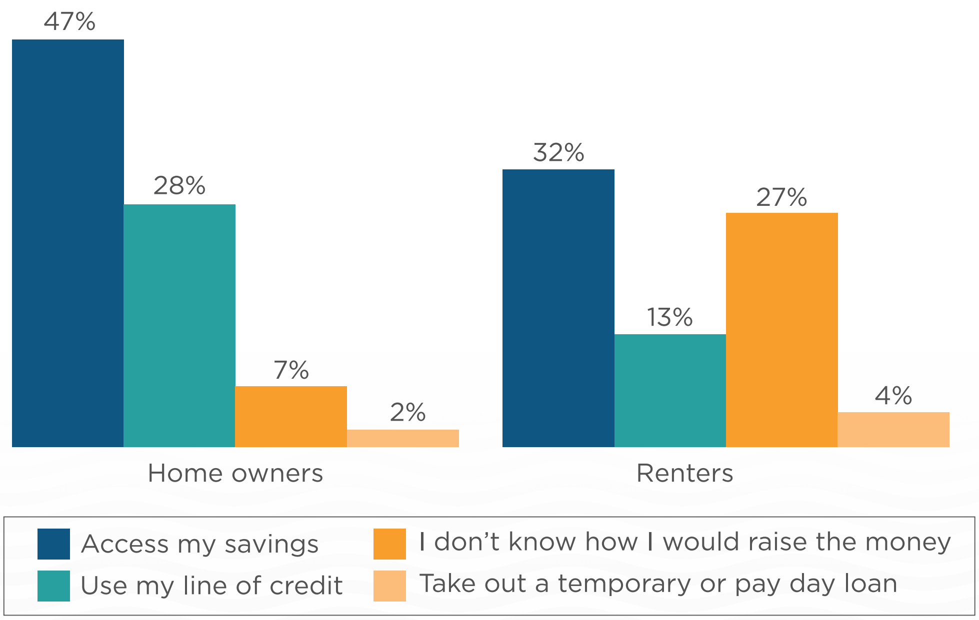
Specifically, whereas 27% of homeowners "occasionally" or "often" worry about being able to pay their mortgage, 49% of renters worry about being able to pay their rent. Thirty percent renters, compared to 23% of home owners, say they are significantly or somewhat worse off than they were 12 months ago, reflecting challenges with housing affordability and increased rents in locations such as Vancouver and Toronto.

It is evident that renters can endure greater financial challenges, in turn impacting their ability to save. Indeed, if an unexpected need arose, renters are four times more likely to say that they "would not know how to raise the money" compared to homeowners (27% vs. 7%).

Renters are also twice as likely to "take out a temporary or pay day loan" to meet unexpected expenses. This points to opportunity for traditional financial service provides to interject and provide support to this sizeable group of Canadians.

Millennial renters are in even worse situations. They spend 38% of their take-home income on rent. Moreover, this higher expense comes out of their savings bucket. Millennial renters save less than 9% of their monthly income, representing 30% less than their home-owning counterparts.

If an unexpected need arises within the next month, how would you most likely come up with [the funds]?



Supporting the Financial Resiliency of Canadians

As outlined in our first white paper, we see a necessary paradigm shift and significant opportunity to focus on more meaningful measures for consumer financial health. This needs to be combined with more meaningful modes of support to help Canadians manage and improve their financial health, wellness and resilience – while helping to alleviate some of the stressors people face. The strong linkage between financial well-being and overall personal well-being will help improve Canadian's lives, and those of their families and our communities.

The shift towards financial health is happening in other countries, most notably in the US and Australia. Prevalent consumer financial stress, combined with Canada now the most indebted G7 country in the world for consumer debt) means this shift is more relevant than ever. While wonderful work is happening in the financial literacy arena, in particular with more vulnerable populations, there is growing recognition that financial literacy is just one piece of the puzzle. Financial health-focused innovation, nudging and pilot-testing-and learning will be important. In tandem, leadership within our business community; culture change within our financial ecosystem, and new ways to involve consumers and collaborative partners in the journey will enable step-by-step improvements.

There is an opportunity for multiple stakeholders – including financial providers, NGOs and the Government – to take a fresh look at what role they can play to better support the financial health and resilience of their customers or key stakeholders. This builds on great work that is already in play, in recognition that there is no 'one size fits all' solution. On-going research, discovery, engagement, dialogue and innovation to help Canadians to think about and proactively manage their financial health in ways that matter to them, will be important. In addition, there is a need to shine a light on predatory financial services practices that can exploit consumers, and negatively impact their financial health and resilience.

While our study highlights that some Canadians feel satisfied with their financial situation and financial wellness, and may not need additional support, many Canadians are experiencing stress and need help, but keep their worries and challenges to themselves. Over time, we see a future where more Canadians are more effectively supported, nudged and helped to make informed financial choices throughout their lives. This includes from a holistic perspective, and across all four 'pillars' of the traditional financial services spectrum (i.e. daily money management; savings, planning and investing, debt management and protection.)

There is a need for committed financial services providers to explore how they may be able to improve their customer and relationship management, business processes and offerings, to better support the needs and pain points of their customers, while building trust. This includes supporting consumers based on their specific stressors and challenges; through planned and unplanned life events, and in the context of their life and financial goals.

It is not surprising that unplanned life events (such as disability; death of a loved one; divorce, or losing a job) can have negative knock-on effects on peoples' lives and their finances. Our study examines financial wellness and resilience in the context of consumers' life events, planned and unplanned, from the past. For example, according to our research, 10% of Canadians (or their partner or spouse) have lost their job or had their pay reduced in the past year; 15% of individuals (or someone in their household) have had a short or long-term disability and 4% have experienced a significant increase in rent or been evicted. During these times of hardship, people need options for help, advice and empathetic support – as well as tools and supports they can seek out and use themselves, in tandem with other supports as appropriate.

We also see a tremendous opportunity to place more emphasis on consumer financial resilience. This can be defined as a person's ability bounce back from unplanned events and times of financial hardship. This supports overall personal resilience, and creates opportunities for Canadians to invest in themselves, their families and future generations.

The resources that work together to enable consumer financial resilience, embedded within our framework, and inspired by the research of National Australia Bank & The Centre for Social Impact[9]. These include: economic resources (and other aspects that impact human capital); financial knowledge, confidence and behaviours; access to and use of financial products and services; and social capital.

9. National Australia Bank and Center for Social Impact: *Financial Resilience in Australia 2015 Report* (2016)

The economic resources and resilience of Canadians

Challenged economic resources are a reality for many Canadians with 15% of the survey respondents having a total household income under $25,000 and an additional 20% having a total household income under $50,000.

Income volatility in addition to challenged economic resources is also an issue that affects the financial stress and resilience of many Canadians, including many of the more challenged consumer segments outlined in our white paper.

TD's recent report on the Income Volatility of Canadians (2017) highlights that 37% of adult Canadians have experienced moderate to high income volatility (as defined in their study) over the past 12 months, and of those, 18% (or five million Canadians) experienced high or very high income volatility. This study highlights that there are many reasons for income fluctuations for Canadians. These include: being paid an hourly or daily rate (on contract) with work hours changing weekly; being self-employed with income changing monthly; and relying on multiple sources of income, which also vary month-to-month. Canadians experiencing high income volatility can include the self-employed; people working seasonally and/or part time, Millennials (particularly women and young Millennials), mature Gen X men (aged 45 to 55 years old), low income Canadians and Canadians, Albertans and those living in Canada's largest cities[10].

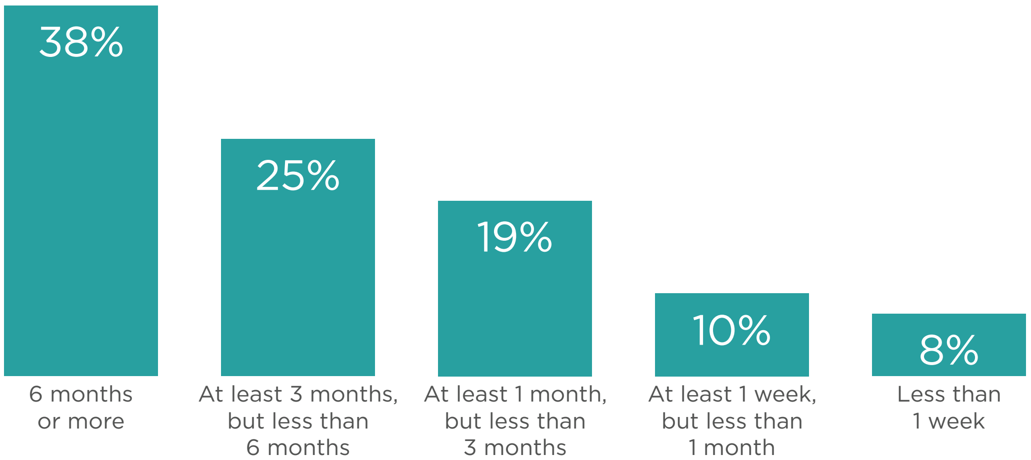
As highlighted in the Financial Health Index study, the rising cost of goods and services and increased cost of housing and rent; combined with challenges due to income volatility, can make it more difficult for many Canadians to save. And many of the segments outlined can find themselves more financially 'fragile', or in more precarious financial situations.

One key indicator of financial resiliency (and financial health) is the ability of a person to make ends meet in the case of an emergency. This is one of CFSI's eight financial health indicators, incorporated into our study[11]. When asked about how long their household could make ends meet if they lost their main source of income, over a third of Canadians (37%) estimate that they have less than 3 months of savings available to cover basic monthly expenses (such as housing, food, taxes, etc.). In fact, 10% of Canadians expect that they have enough savings for only up to a month, and 8% say they could only survive for a week or less.

10. The Impact of Income Volatility on Canadians: a public opinion survey conducted on behalf of TD Bank Group (2017)

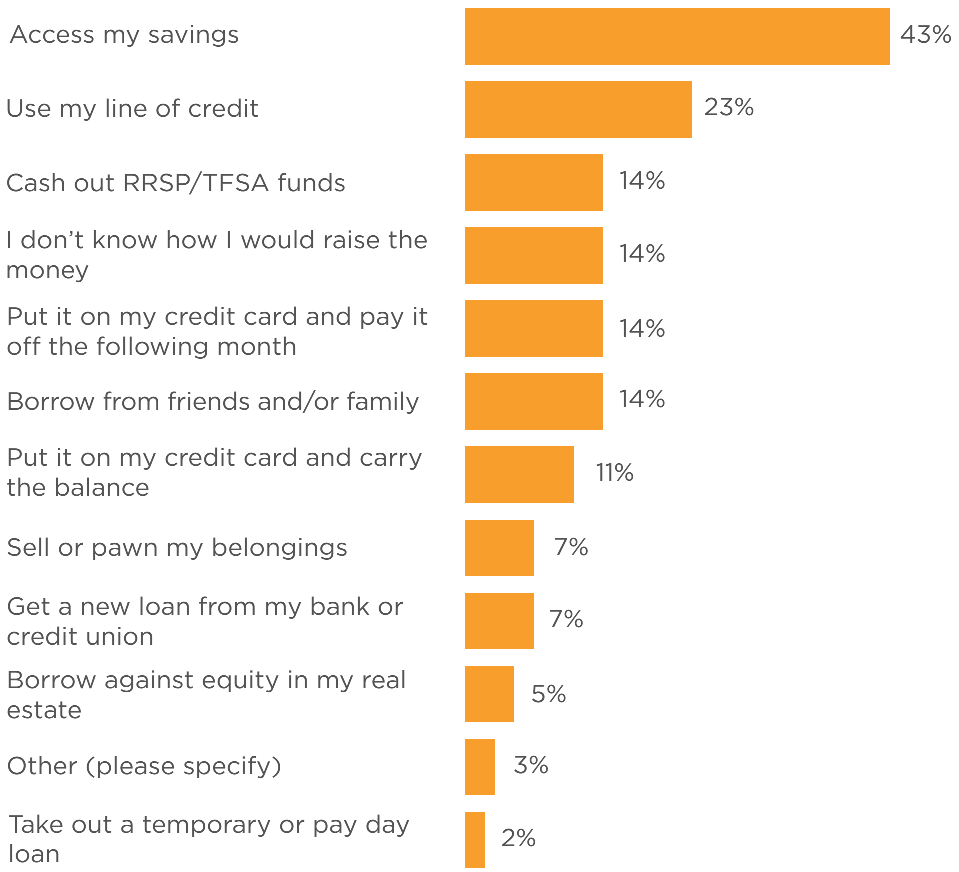
11. CFSI Financial Health Indicators and Methodology

Over a third of Canadians estimate that they have less than 3 months of savings available to cover basic monthly expenses



If an unexpected need arose within the next month, only 43% of Canadians also say they would be able to access their savings for the funds. The remainder would need to find the funds in other ways. 23% of Canadians would use their line of credit to come up with the funds, 25% would use their credit card and 2% would take out a temporary or pay day loan.

If an unexpected need arises within the next month, how would you most likely come up with [the funds]?



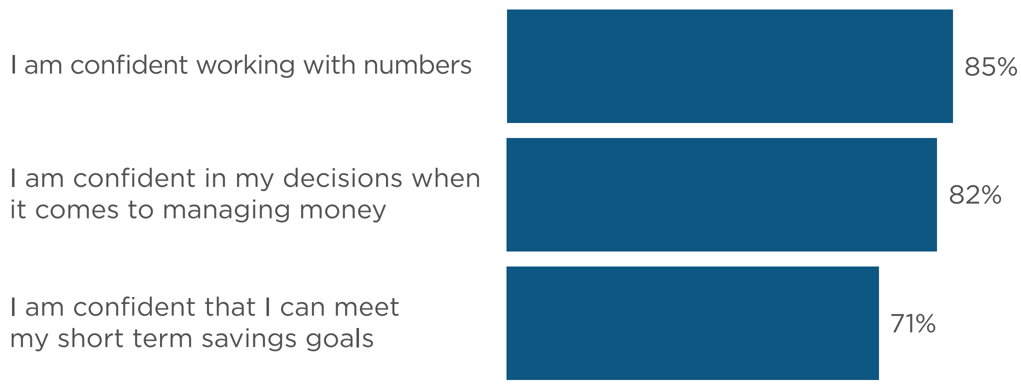
Financial knowledge, confidence and behaviours

Low financial confidence and/or low financial knowledge (or literacy) can combine with other difficulties in navigating financial decisions. Interestingly, the Canadian Financial Health Index study paints the picture that overall, Canadians appear to be quite confident in their ability to work with numbers (85%) and in their decisions when it comes to managing money (82%).

Moreover, many Canadians (86%) say they believe they have the "skills and knowledge to manage their household's finances well" and that they "understand what financial products and tools they need."

And yet, these quite strong 'financial literacy' results in themselves can be more challenged for certain more vulnerable groups of our population.

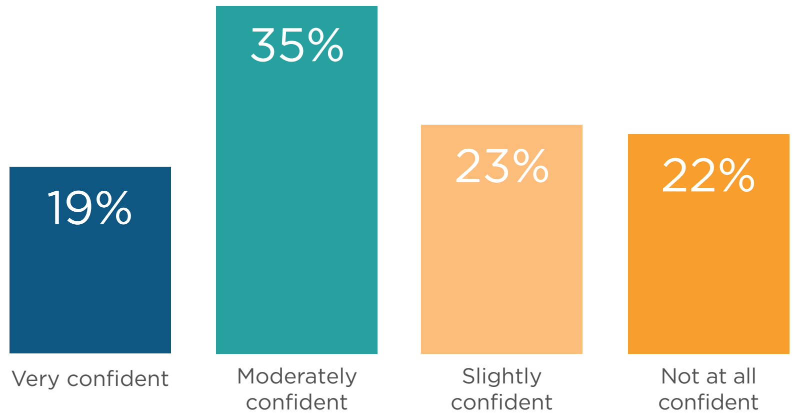
Proportion of Canadians who agree with each of the following statements about their financial confidence



Proportion of Canadians who agree with each of the following statements about their financial knowledge

Our study highlights that financial literacy is not enough, and sometimes does not translate to financially healthy decisions or behaviours by consumers. Indeed, when asked about their level of confidence that their "household is taking the steps needed to ensure that you will have enough money saved for your long-term financial goals" (including retirement), only 54% of Canadians are "moderately" or "very" confident that they are taking the right steps to support their financial health. Meanwhile, 23% of Canadians are only "slightly" confident, and 22% are "not at all" confident. Confidence in making financial decisions. This is often affected by life stage and other factors.

Approximately half of Canadians are moderately or very confident that their household is taking the steps needed to ensure that they save for long-term financial goals



Controllable and less controllable barriers and factors that can impact consumers' engagement around their money matters; financial decision-making and/or behavior change deserve research exploration and analysis, building on behavioural finance research, customer and transactional data. These factors may include, for example, a lack of time; information overload; a lack of interest and/or knowledge around money matters or what financial products or solutions that may be best for a consumer's needs or circumstances.

Other factors can include a lack of confidence; limited financial knowledge; a sense of being overwhelmed by the complexity of financial product options and choices to navigate; consumer procrastination, and/or deeply engrained emotional feelings or fears about money (or 'money scripts') that affect decision-making, consumer and financial behaviours. Limited social capital and/or a sense of embarrassment and shame can also create barriers to Canadians seeking out information or help.

Access to quality financial products and solutions to support consumers' financial health and resilience

Consumers' financial resilience can and should be supported by their primary financial institution (or institutions).

Financial resilience can also be positively impacted by other financial enablers that consumers proactively put in place (and/or by financial behaviours that they exhibit), either based on their own knowledge, research or experience; the advice of their FI or another trusted advisor. These include: putting in place an emergency fund; engaging in responsible borrowing and debt management practices; budgeting and saving; forward-based financial planning and investing; and having the right protection, insurance or other benefits in case of unforeseen events. Some Canadians are strong in some of these areas, but have blind spots or feel more vulnerable in other areas. And some Canadians have little financial cushion at all: with 19% Canadians (representing 3.7 million people) having no savings or investments at all.

There is also a great opportunity to support the financial health and resilience of young Canadians and our future generations. Enhanced, nation-wide financial education for kids and students in schools and colleges, and other programs, 'games' or engagement mechanisms will help kids learn about money matters, while encouraging dialogue and learning at school and home.

Many Canadians don't leverage their social capital or lack support from others

Consumer Financial resilience can be impacted by a person's overall emotional resilience and their social capital. This aspect of social capital is explored in detail through the Financial Health Index study. Connection to community and isolation is a significant problem in Canada. Our study highlights that many Canadians feel unwilling to share their money worries or talk about their financial matters even with their spouse, let alone with their financial institution(s).

The Canadian Financial Health Index study highlights that nearly half of Canadians keep their money stresses and problems private. In fact, 38% of Canadians don't discuss their financial affairs or worries with anyone. An additional 9% of Canadians don't have anyone they could talk to about their financial matters, even if they wanted to. Issues related to 'money loneliness' and 'money shame' are also highlighted in ManuLife's recent research[12].

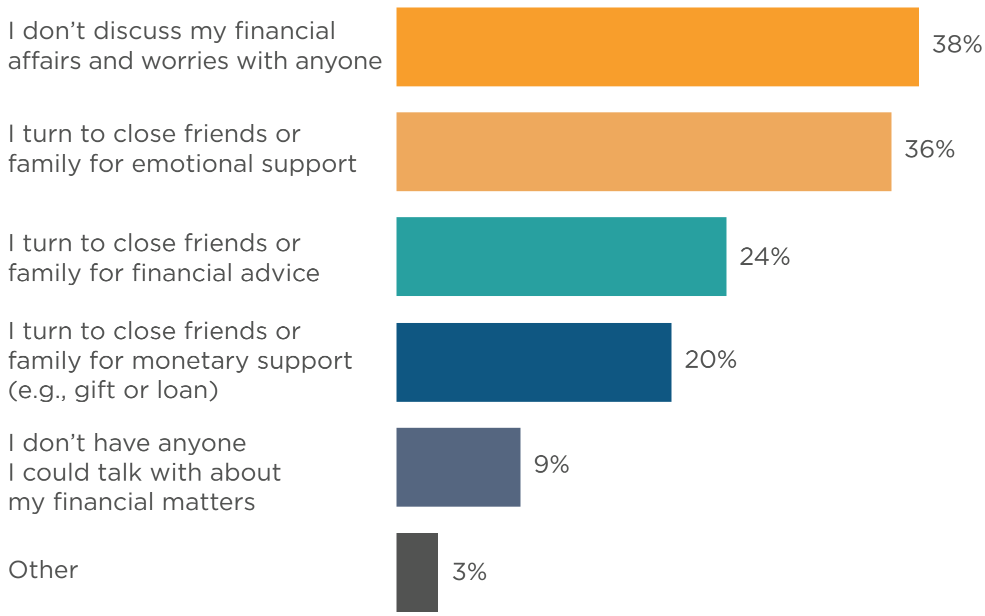
Our findings around Canadians keeping their financial worries and stresses to themselves are also interesting when looked at for rural Canadians. Indeed, 49% of Canadians in rural areas don't talk about their finances with anyone, vs. 37% for Canadians living in urban or suburban areas and the 38% national Canadian average.

Men are also far less likely to discuss their financial matters with anyone, with 44% of men not talking about their financial affairs or worries with anybody vs. only 32% for women. Men are also far less likely to turn to close friends or family in times of need or financial hardship - with only 20% turning to their close friends or family for support, vs. 27% for women. 10% of men also say they have no one to talk to about their financial matters, vs. only 8% for women.

A lack of social capital is a challenge affecting many Canadians' financial resilience and financial wellness. In times of financial hardship, only 1 in 5 Canadians turn to friends or family for monetary support (such as a gift or loan). 36% of Canadians turn to close family or friends for emotional support. Yet there are many Canadians lacking support and feeling isolated and anxious about their money worries. The aspect of social capital, including in the context of males, and/or for more vulnerable or stressed segments, is an important, under-researched area.

12. ManuLife Emotional Barriers to Financial Wellness Study, October 2017 – conducted in partnership with Homewood health Inc. This survey was conducted with professional counsellors across Canada. 46% of counsellors surveyed agree that Canadians find it difficult to talk about their financial challenges, mainly due to shame and embarrassment. This study highlights that "emotional barriers often have a negative impact on the health of Canadians….and these feelings can lead to a perpetual cycle of mental and physical health problems, reducing both quality of life and productivity at work."

In times of financial hardship or worry, do you rely on close friends or family for any of the following?



Opportunities for the Financial Ecosystem to Play a Meaningful Role

The Financial Health Index study highlights that there is significant financial stress in our country, and a need to do more to support Canadians.

There is also significant momentum and exciting collaborative innovation taking root across our country to support the financial literacy, education and empowerment of Canadians. This builds on the national Financial Literacy strategy, and passionate commitment of many leaders and organizations within our communities.

Government, non-profits and social enterprises, banks and credit unions, fintechs, financial coaches, credit counsellors and related organizations all have an important role to play – in not only helping to support financial literacy, but as a next step, in supporting the financial health and resilience of Canadians, including underserved and more vulnerable segments of our population.

More than one in five Canadians have had challenges in accessing financial services over the past 12 months, and there is a lot more that our financial ecosystem can do to support Canadians in their financial health journeys. Some of the opportunities are outlined in Part 3 of our white paper series: titled *The Role Financial Institutions can play and Business Benefits for Committed FIs*. In this white paper, we also highlight some of the significant business benefits for FIs to invest in their customers' financial health, from a brand and banking share of wallet perspective.

We hope our research helps to raise awareness around the many opportunities to support Canadians, and key segments, in terms of their financial health, wellness and resilience. For committed financial services providers, Financial Health Index study consumer and segment data insights can be provided and analysed in conjunction with their proprietary transactional and customer data, including as it relates to: financial life stage, financial circumstance, financial enablers, financial capability and most importantly, consumer financial behaviours that positively or negatively impact financial health.

We see a future that better supports Canadian consumers and their families in terms of their financial health and resilience. Leadership and innovation will drive positive outcomes for Canadians and create avenues for meaningful support.

Financial Health index

www.finhealthindex.ca | info@finhealthindex.ca